

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Harbor Springs Building Authority	County Emmet
Fiscal Year End December 31, 2006	Opinion Date May 23, 2007	Date Audit Report Submitted to State June 25, 2007	

We affirm that:

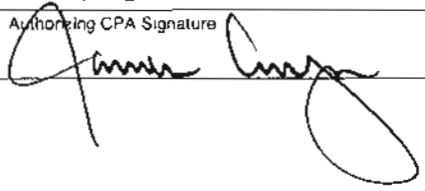
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NCN	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP		Telephone Number 231-347-4136	
Street Address 923 Spring St PO Box 695		City Petoskey	State MI
Zip 49770			
Authorizing CPA Signature 		Printed Name James Cusenza	License Number 1101012888

FINANCIAL REPORT
CITY OF HARBOR SPRINGS
BUILDING AUTHORITY
December 31, 2006

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
FINANCIAL REPORT
December 31, 2006

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Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

May 23, 2007

Independent Auditors' Report

Board of Commissioners
City of Harbor Springs Building Authority
Harbor Springs, Michigan

We have audited the financial statements of the City of Harbor Springs Building Authority, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Harbor Springs Building Authority as of December 31, 2006 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The City of Harbor Springs Building Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Hill Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2006

Assets

Current assets:

Current portion of lease contract receivable - net of interest	\$ 50,000
Lease contract receivable (net of current portion)	<u>975,000</u>
Total assets	<u><u>\$ 1,025,000</u></u>

Liabilities and Net Assets

Current liabilities:

Current portion of bonds payable	\$ 50,000
Bonds payable (net of current portion)	<u>975,000</u>
Total liabilities	1,025,000
Net assets	<u>-</u>
Total liabilities and net assets	<u><u>\$ 1,025,000</u></u>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2006

Revenues:		
Lease contract revenue	\$	55,243
Expenses:		
Bond interest and fiscal charges		<u>55,243</u>
Excess (deficiency) of revenues over expenses		-
Net assets, beginning		<u>-</u>
Net assets, ending	\$	<u><u>-</u></u>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2006

Cash flows from operating, capital financing, and investing activities:

There were no cash operating, capital financing, or investing activities during the reported period

Non-cash operating and financing activities:

The Authority recognizes lease revenue due from the City and the related bond, interest and fiscal charges as these charges are paid directly by the City on the Authority's behalf.

Lease contract receivable	\$ 50,000
Lease contract revenue	55,243
Bond principal	(50,000)
Bond interest and fiscal charges	(55,243)
	<hr/>
Total non-cash operating and financing activities	<hr/> \$ - <hr/>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Harbor Springs Building Authority pertain to the financial activities of the Authority as a separate entity. These activities have also been consolidated with the financial statements of the City of Harbor Springs, Michigan. The Authority is covered by various insurance policies maintained by the City of Harbor Springs.

The Building Authority has lease contracts with the City of Harbor Springs, Michigan covering the construction of the city hall, and police department renovations by the Authority. Since the contracts represent financing transactions, the Authority has recorded the lease contracts as receivables in lieu of recording the properties as fixed assets.

The financial statements of the Authority have been prepared on the accrual basis of accounting except for the recognition of interest income and expense as explained below.

Accounting policies for specific items follow:

Outstanding bonds not defeased are recorded as a liability.

Interest income associated with the investments is recorded when received. Interest expense associated with the bonds is recorded when cash is disbursed. Accruing interest expense would be offset by accrued revenue from the City resulting in essentially the same position and results of operations.

NOTE 2: LEASE CONTRACTS AND BONDS

City Hall/Police Department

The Building Authority has a lease contract with the City of Harbor Springs, Michigan, covering the city hall and police department buildings. General obligation bonds totaling \$1,125,000 were issued in 2002 by the Building Authority and all of the proceeds have been used to renovate the city hall and police department buildings.

Rental receipts under the lease agreement, which are pledged as collateral for the bonds, have been set at the amount necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, which are scheduled for redemption through 2022, ownership of the related facilities will be turned over to the City.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: LEASE CONTRACTS AND BONDS – CONTINUED

Details of the ordinances and related assets and liabilities are as follows:

	City Hall/Police Department
Lease contract receivable	\$ 1,512,425
Interest included	(487,425)
Net receivable on balance sheet	<u>\$ 1,025,000</u>
Bonds outstanding	<u>\$ 1,025,000</u>
Interest rates	<u>4.0 to 6.0%</u>

The annual debt service requirements to maturity for the bonds outstanding as of December 31, 2006 are as follows:

December 31	City Hall/Police Department Principal	Interest
2007	\$ 50,000	\$ 53,968
2008	50,000	50,968
2009	50,000	47,966
2010	50,000	44,968
2011	50,000	41,968
2012-2016	325,000	166,965
2017-2021	375,000	76,778
2022-2025	75,000	3,844
Total	<u>\$ 1,025,000</u>	<u>\$ 487,425</u>